

SOUTH VALLEY SEWER DISTRICT

FINANCIAL STATEMENTS

DECEMBER 31, 2006

**SOUTH VALLEY SEWER DISTRICT
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Jensen & Keddington, P.C.

Certified Public Accountants

Jeffrey B. Jensen, CPA
Gary K. Keddington, CPA
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Jeffrey B. Hill, CPA**INDEPENDENT AUDITORS' REPORT**Board of Trustees
South Valley Sewer District
Draper, Utah

We have audited the accompanying financial statements of South Valley Sewer District (the District), as of and for the year ended December 31, 2006, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Valley Sewer District, as of December 31, 2006, and the respective changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a separate report dated May 8, 2007 on our consideration of the District's internal control over financial reporting and on our tests of compliance with certain provisions of laws and regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Impact Fee Schedules listed as supplemental information in the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

May 8, 2007

SOUTH VALLEY SEWER DISTRICT MANAGEMENT DISCUSSION AND ANALYSIS

This discussion of South Valley Sewer District's (the District) financial performance provides an overview of the District's financial activities for the year ending December 31, 2006. This report should be read in conjunction with the District's financial statements and accompanying notes.

OVERVIEW OF THE DISTRICT

The South Valley Sewer District, formally known as the Salt Lake County Sewerage Improvement District No. 1 was established in 1961 by resolution of the Salt Lake County Commission. As a result of legislation enacted by the State Legislature, the District's name was changed effective January 1, 2001. In 2002 the Board of Trustees for the District expanded by two additional seats to a total of five Board Member. In 2005, the Board of Trustees expanded an additional two seats. The District is now governed by a seven member Board of Trustees.

As adopted by the Board of Trustees, it is the mission and purpose of the South Valley Sewer District to provide public sanitary sewer service, including collection and treatment of sewerage, to all properties located within the boundaries of the District in an orderly manner as rapidly as District finances will permit. The Board retains the right, in its sole discretion, to determine the financial feasibility, location of and time of installation of all extensions of the District's sewer system.

The District is responsible for the collection and distribution of sewage effluent within the cities of Bluffdale, Draper, Riverton, South Jordan, Herriman, approximately the southern third of Sandy, a small area in West Jordan and the unincorporated portions in the southwest area of the Salt Lake Valley (including Copperton). As of year end, the District encompassed approximately 105.38 square miles and has an estimated 767 miles of sanitary sewer pipe installed for public use, the majority of which is located in Salt Lake County. The remaining portion or area serviced by the District is located in Utah County.

FINANCIAL HIGHLIGHTS

- The District's assets increased by \$23,479,986 or 10.3%. This does not include investment in the South Valley Water Reclamation Facility.
- During 2006, the District was paid connection fees for a total of 3,363 single family dwelling units. Combined with commercial connections this equated to total revenue of \$10,634,502. This was a growth of 8.5% based on total connections.
- No long term debt was incurred during 2006.
- In August 2004, the District purchased approximately 57 acres of property in Riverton City for a future wastewater treatment facility. This was followed up in 2005 with an additional 62 acres purchased for the new treatment facility as a condition of Riverton City's Conditional Use Permit. The Water Quality Water Management Plan (208 Permit) was approved by Salt Lake County for the future wastewater treatment facility.
- Private development has continued to occur within the boundaries of the District. During 2006, a total of 34.3 miles of new sanitary sewer lines were contributed to the District.
- In prior years, the District did not have any public lift stations. The District's first permanent lift station became operational during 2005. There are also three temporary lift stations that are operational within the District.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of two components: 1) financial statements, and 2) notes to the financial statements.

SOUTH VALLEY SEWER DISTRICT MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The District prepares its financial statements on an enterprise fund basis. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private businesses, where the intent is that all costs of providing certain goods and services to the general public be financed or recovered primarily through user charges. Under this fund, the accrual method of accounting is used. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. These statements provide both long-term and short-term information about the District's overall financial status. The financial statements are comprised of three statements and related notes to the financial statements.

The *statement of net assets* presents information on all of the assets and liabilities of the District, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of revenues, expenses, and changes in fund net assets* presents information showing how the District's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The *statement of cash flows* presents information on the cash receipts, cash payments, and change in cash resulting from operations, investing, and financing activities. This statement answers questions such as where did the cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

The *notes to the financial statements* provide additional information that is essential for a full understanding of the data provided in the government-wide financial statements. The notes are part of the basic financial statements.

FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$226,148,869.

The following is a condensed presentation of the Statement of Net Assets:

	2006	2005
Current and other assets	\$ 92,418,650	\$ 82,677,030
Capital assets	158,208,524	144,470,158
Total Assets	250,627,174	227,147,188
Long-term liabilities outstanding	20,786,882	22,449,614
Other liabilities	3,691,423	5,991,459
Total Liabilities	24,478,305	28,441,073
Invested in capital assets, net of related debt	149,411,642	133,940,389
Restricted	49,191,896	52,038,522
Unrestricted	27,545,331	12,727,204
Net Assets	\$ 226,148,869	\$ 198,706,115

SOUTH VALLEY SEWER DISTRICT MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The largest portion of the District's net assets (66.1%) reflects the investment in capital assets (e.g., land, buildings, sanitary sewer pipe), less any related debt (general obligation and revenue bonds) used to acquire those assets that is still outstanding. The District uses these capital assets to provide sanitary sewer service to the property owners of the District. Consequently, these assets are not available for future spending.

An additional portion of the District's net assets (21.8%) represents resources that are subject to external restrictions on how they may be used. Most of the restricted fund is a result of funds collected from impact fees, which must be used for specific capital projects. This will be addressed later in the report under the expansion of the South Valley Water Reclamation Facility (the treatment plant).

FINANCIAL ANALYSIS OF DISTRICT

Net Assets

The focus of the District's financial statements is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. The net assets section on the statement of net assets is divided between invested in capital assets, net of related debt, restricted net assets, and unrestricted net assets. The largest portion of the District's net assets, under the caption "invested in capital assets, net of related debt", reflects its investment in capital assets (e.g. sewers, buildings, machinery and equipment) less any related debt used to acquire those assets that is still outstanding. The District uses these assets in providing sewage treatment services and these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources to repay this debt must be provided from other sources, since the capital assets themselves are not intended to be used to liquidate these liabilities. The portion of net assets that are restricted represents resources that are subject to external restrictions on how they may be used. The portion of net assets that are unrestricted represent resources that are available for the District to pay operating expenses, purchase capital assets, or make debt payments.

Overview of District's Revenues

The District has three primary sources of revenue: property taxes, service charges, and connection fees. The fees associated with connection fees are directly related to the economy and related growth within the District.

SOUTH VALLEY SEWER DISTRICT MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The following is a brief analysis of the District's major sources of revenues and expenditures:

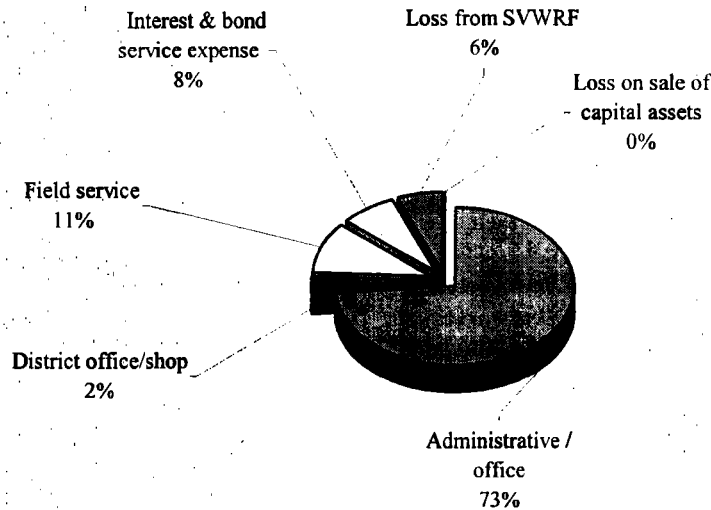
	2006	2005
Revenues:		
Service charges	\$ 8,532,238	\$ 7,882,095
Connection fees	10,634,502	11,965,516
Other operating revenues	283,453	311,841
Inspection and design fees	370,592	415,784
Property tax revenue – debt service	290,565	301,555
Property tax revenue – operations	3,910,040	3,674,049
Gain on sale of capital assets	-	12,256
Certified account penalties	6,743	5,187
Interest income	3,320,830	1,798,508
Total Revenues	27,348,963	26,366,791
Expenditures:		
Administrative/office	10,785,040	9,867,650
District office/shop	303,610	272,389
Field service	1,558,996	1,289,140
Interest & bond service expense	1,102,932	999,905
Loss on sale of fixed assets	8,164	-
Loss from SVWRF	878,407	654,192
Total Expenditures	14,637,149	13,083,276
Net Income Before Contributions	12,711,814	13,283,515
Contributions - lines and other	14,730,940	14,478,725
Change in Net Assets	27,442,754	27,762,240
Total Net Assets, Beginning of Year	198,706,115	170,943,875
Total Net Assets, End of Year	\$ 226,148,869	\$ 198,706,115

Overview of District's Expenditures

The District has five major costs of operations: capital expenditures, debt service, treatment plant, wages and benefits, and administrative costs. The depreciation represents the estimated cost or portion of the existing system used for operations.

SOUTH VALLEY SEWER DISTRICT MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

(Expenses by Function)



Service Charges

The Board of Trustees has full and independent power, as granted by State Law, to establish revenue levels and rate designs for sewer service provided by the District. The District is not subject to rate regulation by any State or Federal regulatory body, and is empowered to set rates effective at any time.

The District has implemented three service areas. Service Area 3 encompasses all flows in Utah County which go into the Timpanogos Special Service District. Service Area 2 includes all land in the "Daybreak" Development of approximately 5,000 acres. Service Area 1 is all other land area in the District. Service Areas 1 and 2 flow into the South Valley Water Reclamation Facility. A history of the service charges for residential customers for the District is as follows:

<u>Year Established</u>	<u>Monthly Service Charge</u>
1975-1980	6.00
1981	7.00
1982	10.00
1983	15.00
1989	12.00
2004 - Service Area 1	15.00
Service Area 2	15.00
Service Area 3	18.50

The rate for commercial and industrial users is based on wintertime water usage. Water meters are read in the fall and spring and then a thirty-day average is computed. This fee is calculated by using a standard residential equivalent value and together with the winter water meter readings, a monthly service charge is calculated. This rate is then set in place for the next twelve months when new calculations are made. It has been determined that the residential equivalent is now 12,000 gallons per month. The rate is now set at .00098 cents per gallon based on a thirty day usage per month.

SOUTH VALLEY SEWER DISTRICT MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Customer Accounts (as of August 31st of each year):

<u>YEAR</u>	<u>TOTAL BILLED</u>	<u>PERCENT OF CHANGE</u>
1997	21,810	
1998	24,126	10.60%
1999	25,965	7.60%
2000	27,989	7.80%
2001	29,491	5.40%
2002	31,471	6.71%
2003	33,279	5.74%
2004	35,356	6.24%
2005	38,301	8.33%
2006	41,045	7.16%

Included in the table above are customer accounts that relate to multiple dwelling units. There may be one customer which includes many units. Based upon the data available, there are 265 multiple accounts (included above) which equates to 4,867 units. In other words, the District is billing on a total customer base of 45,647 connections.

Property Taxes

The District has the authority to set a certified tax rate. The maximum rate of levy applicable to the District under Part 3, Chapter 2, Title 17A, Utah Code Annotated 1953, as amended, for operations and maintenance is .0008. This tax levy is based on a certified tax, which is set at a percent per dollar of taxable value of taxable property within the entity with minor adjustments for new growth and compared to previous rates of collection. Because of the nature of legally issued general obligation debt, districts may levy an unlimited tax levy in order to cover the principle and interest. This is not the case with debt incurred through revenue bonds.

The Board of Trustees for the District sets property tax rates in June of each year. The County Assessor assesses a value (an approximation of market value) as of January 1 of each year for all real property which the property tax rates will apply for assessing property taxes. The property taxes assessed become delinquent after November 30.

Connection Fees

The District charges a connection fee for residential and non-residential customers. As referenced above, the District has implemented three service areas. Each service area is now reflected in the chart below. As Service Area 3 is for flows that are treated at the Timpanogos Special Service District, the connection fees for this area are remitted to that entity as per agreement. The following recap is a history of connection fees assessed by the District for single family dwelling units:

<u>Date Established</u>	<u>Minimum Connection Fee</u>
1972	\$ 350
September 1972	390
November 1972	450
October 1975	500
September 1978	850
January 1987	1,000
October 1989	1,132
March 1993	1,338
August 1997**	2,901
December 1 2000	3,054

SOUTH VALLEY SEWER DISTRICT MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Connection Fees (Continued)

May 2004 – Service Area 1	\$ 2,925
July 2003 – Service Area 2	1,965
March 2004 – Service Area 3	2,872
December 2006 – Service Area 3	3,168

****Up through June of 1997, Multiple Residential Dwelling Units was based on \$1,338 for the first unit and \$1,004 for each additional unit. The base charge for commercial connections was \$.093 per square foot of the area served. The fee is no longer based on square footage land area being served but is now based on per square foot of building space per floor area.**

In 1995, the Utah legislature passed the Utah Impact Fees Act contained in Chapter 36, Title 11 of the Utah Code Annotated, 1953. In accordance with the Act, a Capital Facilities Plan, as prepared by Gilson Engineering, was adopted by the Board of Trustees on May 21, 1997. Prior to the implementation of the new fee, approximately three years of connections fees were prepaid to the District in a thirty-day time frame. The Cost of enlarging and expanding the sewer system should be borne primarily by new development which is creating the need for expanding the present collection and treatment facilities. The current users of the system have the financial responsibility for the operation and maintenance of the existing system to which they are connected. The new growth should pay for any expansion of the sewer collection and treatment system. The Capital Facilities Plan identifies the demand placed upon existing public sewer facilities by new development activity and the proposed means by which the District will meet those demands.

Fees associated with growth have contributed significantly to the reimbursement of revenues to the District. The District is in its fifteenth year of unprecedented growth exceeding 1,000 connections per year, with no decline occurring. In fact, the District has been growing between 5% and 14.4% over the last seventeen years. It is the objective of the District in recent years to use this one-time source of income for reimbursement of capital improvements. In other words, growth is paying for the expansion of the District and not existing customers that have already paid into the system. The general operations and maintenance of the District is financed through normal service charges and property taxes assessed. As a result of this philosophy, the District has been able to actually be ahead of the growth in many aspects as opposed to being behind. The financial stability of the District is fortunate, as a decline in the economy could dramatically affect associated revenues without seriously affecting the general operations and maintenance of the District. The area which would be severely impacted is the amount of capital projects to be undertaken would be reduced.

Based on the Impact Fee Analysis, 27% in Service Area 1 and 38.75% in Service Area 2 of all connection (impact fees) collected is attributed directly to the treatment plant. All connection fees in Service Area 3, except \$48, per unit are remitted to Timpanogos Special Service District. As a result of this, each month a transfer is made to the Treatment Plant Expansion Fund for that portion of fees paid that should be dedicated for the expansion of South Valley Water Reclamation Facility or the construction of the new wastewater treatment facility.

Overview of Capital Expenditures

The two primary areas associated with capital expenditures within the District are associated with the installation of new sanitary sewer pipe and the expansion of treatment capacity.

SOUTH VALLEY SEWER DISTRICT MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

South Valley Water Reclamation Facility

The South Valley Water Reclamation Facility project dates back to 1976 when the area wide basin plan (under Section 208 of the Clean Water Act) was completed. Planning bodies in the Salt Lake County Area determined that three regional wastewater treatment plants would provide the optimum system for treating sewage.

The South Valley Water Reclamation Facility (Facility) was organized on June 23, 1978, pursuant to the Interlocal Agreement of the State of Utah by two cities and three other governmental entities. The purpose of the Facility was to construct and operate regional sewage treatment facilities for the benefit of the five members. In August 2003, the Facility became a legal entity as a special district under State Law, rather than a joint administrative entity. The facility is located at 7495 South 1300 West, West Jordan, Utah. The Facility is administered by a board. Each member entity appoints one member to the board, and voting power is not related to the percentage of ownership. Therefore, each member is equal to another for voting privileges. The Board is responsible for adopting a budget and provides the financing for Facility operations.

The following is a recap of the related ownership interests and the equivalent capacity of ownership in the treatment plant as of 2006.

	<u>Percent</u>	<u>MGD</u>
South Valley Sewer District	34.72%	13.20
West Jordan City Corporation	28.22%	10.72
Sandy Suburban Improvement District	20.17%	7.66
Midvalley Improvement District	10.11%	3.84
Midvale City Corporation	6.78%	2.58
	<u>100.00%</u>	<u>38.0</u>

Federal funds were provided by the Environmental Protection Agency (EPA) to finance 75% of the original property, plant and equipment purchases. The Facility provided funds for the remaining 25% from member contributions in proportion to their ownership interests. All costs and expenses are reimbursed monthly to the Facility by the members on the basis of sewage flow measurements and ownership percentages. The Facility has no other significant revenue sources.

South Valley Water Reclamation Facility – Phase 4 Expansion Project

The current phase of the Reclamation Facility plant expansion will increase its capacity from 38 MGD (million gallons per day) to 50 MGD at an estimated cost of \$21.3 million. The District will purchase an additional ownership interest equivalent to 3 MGD and West Jordan City will purchase an additional ownership interest equivalent to 7.5 MGD with the other member entities purchasing the balance. The Reclamation Facility expansion known as Phase IV commenced construction in 2000 and is scheduled for completion by 2010. Concurrent with the expansion, there are upgrades planned for the treatment facility which are estimated to cost approximately \$43.3 million (the "Reclamation Facility Project"). Each member entity of the Reclamation Facility is responsible for financing its proportional share of the Reclamation Facility Project. The District financed the current phase known as 4C through a revenue bond issue in 2005. It is anticipated that the final phase (4D) will be financed through a joint bond issue through the Reclamation Facility. The percent of ownership and the mgd in ownership will not be allocated until the end of phase 4D.

Proposed New Treatment Plant

A new sewage treatment facility for the District is proposed to be constructed in Riverton City which is situated within the boundaries of the District. A site has been purchased and a conditional use permit has been obtained from the City. Further approvals are being sought at this time. It is anticipated that the Riverton Treatment Facility

SOUTH VALLEY SEWER DISTRICT MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

design will take one year to complete with construction taking an additional two years. The Riverton Treatment Facility needs to be operational with timely approvals in order to avoid possible self-imposed growth restrictions within the District.

Based on the Draft Wastewater Facility Plan, the Riverton Treatment Facility is estimated to cost approximately \$126 million. Over the last 10 years, the District has set aside approximately \$30 million to offset treatment capacity needs. It is anticipated additional bonds in the amount of approximately \$96 million will be needed to fund the remaining balance. It is anticipated that a rate increase in both impact fees and service charges will take place during 2007 in preparation for the new bond issue.

ECONOMIC FACTORS

The largest impact on the District's budget is based upon the building industry; new developments result in connection fees and then subsequently an increase in service charges and property taxes. The increase in expenditures corresponds also with the increase of new connections.

Growth within the District

The following is a list of pipe footage contributed to the District as subdivisions were completed and finished for each of the previous years. This demonstrates rather dramatically the initial drop in 1998 and 1999 and then resurgence in development over the last seven years. This is directly related to the amount of revenues generated not only in development review fees, but the subsequent growth that follows in paid connection fees and ultimately service charges.

<u>Year</u>	<u>Footage Of Pipe</u>	<u>Miles</u>
1994	119,207	22.6
1995	123,692	23.4
1996	125,517	23.8
1997	132,461	25.1
1998	198,670	20.6
1999	73,322	13.9
2000	132,084	25.0
2001	117,028	22.2
2002	164,252	31.1
2003	142,403	26.9
2004	175,047	33.2
2005	210,435	39.9
2006	181,129	34.3

Within the District boundaries, there is currently an "inventory" of 5,213 units in approved subdivisions which have not paid a connection fee nor connected to the sewer system as they are vacant lots available for building.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of South Valley Sewer District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to South Valley Sewer District, General Manager, 874 East 12400 South, Draper, Utah 84020.

BASIC FINANCIAL STATEMENTS

SOUTH VALLEY SEWER DISTRICT
STATEMENT OF NET ASSETS
December 31, 2006

Assets

Current Assets:

Cash and cash equivalents	\$ 10,687,934
Receivables	
Service fees	1,137,144
Property taxes	119,476
Certified liens on property	76,360
Contract - RDA	411,663
Miscellaneous	760,464
Prepays	93,507
Total Current Assets	<u>13,286,548</u>

Capital Assets:

Land	7,575,110
Construction in progress	2,273,356
Property and equipment - net	
Collection system	146,711,396
Buildings	471,270
Office furniture and equipment	123,146
Operating equipment	1,054,246
Total Capital Assets	<u>158,208,524</u>

Other Assets:

Restricted cash	60,499,232
Deferred charges	679,177
Investment in South Valley Water	
Reclamation Facility	17,021,127
Intangible asset	932,566
Total Other Assets	<u>79,132,102</u>

Total Assets	<u><u>\$ 250,627,174</u></u>
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The accompanying notes are an integral part of these financial statements.

SOUTH VALLEY SEWER DISTRICT
STATEMENT OF NET ASSETS (Continued)
December 31, 2006

Liabilities

Current Liabilities:

Accounts payable	\$ 1,717,873
Accrued liabilities	79,378
Deferred revenue	93,185
Cash bonds from developers (payable from restricted assets)	1,800,987
Long-term debt due within one year	<u>220,000</u>

Total Current Liabilities	3,911,423
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Non-Current Liabilities:

Long-term debt due in more than one year	<u>20,566,882</u>
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Total Liabilities	<u>24,478,305</u>
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Net Assets

Invested in capital assets, net of related debt	149,411,642
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Restricted for:

General impact fees	23,292,237
SVWRF impact fees	25,899,659

Unrestricted	<u>27,545,331</u>
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Total Net Assets	<u>226,148,869</u>
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Total Liabilities and Net Assets	<u><u>\$ 250,627,174</u></u>
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The accompanying notes are an integral part of these financial statements.

SOUTH VALLEY SEWER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
For The Year Ended December 31, 2006

Operating Revenues	
Service charges	\$ 8,532,238
Connection fees	10,634,502
Inspection fees	370,592
Other operating revenues	283,453
Total Operating Revenues	<u>19,820,785</u>
Operating Expenses	
Operations/administrative/office	10,785,040
District office/shop	303,610
Field service	1,558,996
Total Operating Expenses	<u>12,647,646</u>
Operating Income	<u>7,173,139</u>
Nonoperating Revenues (Expenses)	
Property tax revenue	3,910,040
Property tax revenue - debt service	290,565
Certified account penalties	6,743
Interest income	3,320,830
Bond interest expense	(1,102,932)
Loss from SVWRF	(878,407)
Gain (loss) on disposal of assets	(8,164)
Total Nonoperating Revenues (Expenses)	<u>5,538,675</u>
Net Income Before Contributed Capital	12,711,814
Contributed Capital - Lines	<u>14,730,940</u>
Change In Net Assets	27,442,754
Total Net Assets, Beginning of Year	<u>198,706,115</u>
Total Net Assets, End of Year	<u><u>\$ 226,148,869</u></u>

The accompanying notes are an integral part of these financial statements.

**SOUTH VALLEY SEWER DISTRICT
STATEMENT OF CASH FLOWS
For The Year Ended December 31, 2006**

Cash Flows From Operating Activities	
Receipts from customers and users	\$ 19,048,444
Payments to suppliers	(4,879,624)
Payments to employees	(2,057,931)
Net Cash From Operating Activities	<u>12,110,889</u>
Cash Flows From Investing Activities	
Interest Income	3,320,830
Distributions from SVWRF	518,956
Contributions to SVWRF	(4,190,890)
Net Cash From Investing Activities	<u>(351,104)</u>
Cash Flows From Capital and Related Financing Activities	
Purchase of property and equipment	(3,878,856)
Proceeds from sale of property and equipment	785
Principal paid on bonds	(2,495,000)
Interest paid on bonds	(1,019,996)
Property tax receipts	4,149,411
Certified account penalties	6,743
Restricted cash - net increase	(3,763,597)
Cash bonds from developers - net decrease	(2,868,401)
Net Cash From Capital and Related Financing Activities	<u>(9,868,911)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,890,874
Cash and Cash Equivalents, Beginning of Year	<u>8,797,060</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 10,687,934</u></u>

The accompanying notes are an integral part of these financial statements.

**SOUTH VALLEY SEWER DISTRICT
STATEMENT OF CASH FLOWS (Continued)
For The Year Ended December 31, 2006**

Reconciliation of Operating Income to Net Cash From Operating Activities:

Operating Income	\$ 7,173,139
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation expense	4,862,481
(Increase) Decrease in current assets	
Receivables	(865,526)
Prepaid expenses	302,275
Increase (Decrease) in current liabilities	
Accounts payable	537,892
Accrued liabilities	7,443
Deferred revenue	93,185
Net Cash From Operating Activities	\$ 12,110,889

Noncash Investing, Capital, and Financing Activities

The District received as contributed capital sewer lines capital valued at \$14,730,940.

The District recognized a net loss of equity investment in South Valley Water Reclamation Facility (SVWRF) of \$878,407.

The District recorded \$185,134 of deferred bonds costs that were amortized to bond interest expense.

The accompanying notes are an integral part of these financial statements.

SOUTH VALLEY SEWER DISTRICT NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF ACCOUNTING POLICIES

Reporting Entity

South Valley Sewer District (the District) was established by resolution of the Board of County Commissioners of Salt Lake County in 1961 to acquire and operate a system for the collection, treatment and disposition of sewage within its geographic boundaries. Salt Lake County has no oversight responsibility over the District. The District is not included in any other governmental "reporting entity" as defined by Government Accounting Standards Board (GASB) Statement 14, since the Board of Trustees are elected (4) and appointed (3) by the public and have decision making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. In addition, there are no component units as defined in GASB Statement 14 which are included in the District's reporting entity.

Summary of Significant Accounting Policies

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to government entities. The District has elected, under GASB Statement 20, to follow the pronouncements issued by the Financial Accounting Standards Board and Interpretations issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The District has also elected to follow the pronouncements issued by the Financial Accounting Standards Board and Interpretations issued after November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

The following is a summary of the more significant policies.

Financial Statement Presentation and Basis of Accounting

The District prepares its financial statements on an enterprise fund basis. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private businesses, where the intent is that all costs of providing certain goods and services to the general public be financed or recovered primarily through user charges, or where it has been deemed that periodic determination of net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Accordingly, the District's financial statements are presented on the accrual basis of accounting. Revenues from operations, investments, and other sources are recorded when earned and expenses are recorded when liabilities are incurred. Non-exchange transactions, in which the District receives value without directly giving equal value in return, includes property tax revenue and contributed sewer lines.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods and services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are charges to customers to the system. Operating expenses for the District include the costs of treatment, personnel, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Restricted Assets

The District maintains specific investments held by the Utah Public Treasurer's Investment Pool for safekeeping of funds relating to impact fees, contractor bonds, debt service reserves, unspent proceeds from debt, and general cash reserves.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

**SOUTH VALLEY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)**

NOTE 1 SUMMARY OF ACCOUNTING POLICIES (Continued)

Summary of Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment are stated at cost, which includes capitalization of interest costs incurred during prior years' construction. Normal maintenance and repair expenses that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed asset. The net book value of property sold or otherwise disposed of is removed from the property and accumulated depreciation accounts and the resulting gain or loss is included as non-operating revenues or expenses.

Depreciation of property and equipment was computed using the straight-line method over the following estimated useful lives:

Sewer lines	40 years
Office building	40 years
Furniture and fixtures	10 years
Automobiles and trucks	5-8 years
Tools and equipment	10 years

Joint Venture

The District accounts for its interest in South Valley Water Reclamation Facility (SVWRF) as a joint venture under the equity basis of accounting.

Contributed Capital

The District receives title to various sewer lines that have been constructed by developers after the District certifies that these sewer lines meet all the required specifications. The District records sewer lines at the fair market value provided by the District's engineers, which are depreciated under the methods and life set forth above.

Vacation and Other Compensated Absences

District employees are entitled to certain compensated absences based on their length of employment. Ten days (80 hours) of vacation can be carried over to the next year. The District has no post-retirement (health and life) insurance benefits.

Property Tax Revenues

Property tax rates are set in June of each year by the Board of Trustees for the District. County Assessors assess a value (an approximation of market value) as of January 1 of each year for all real property, which the property tax rates will apply for assessing property taxes. The property taxes assessed become delinquent after November 30. The District's certified tax rate in Salt Lake County for 2006 was 0.408 mills of which 0.028 mills was appropriated for debt service of general obligation bonds, and the balance of 0.380 mills was for operations and maintenance. The District's certified tax rate in Utah County for 2006 was 0.289 mills of which 0.033 mills was appropriated for debt service of general obligation bonds, and the balance of 0.256 mills was for operations and maintenance. The tax rate to be used for the purpose of debt service is not limited. The authority to issue general obligation bonds payable from assessed property taxes must be approved by a majority of the qualified electors of the District. The District is not limited for issuing revenue debt and no election is required. Total property tax revenue for the year was \$4,200,605

Budgetary Accounting

The District adopts an annual budget, which is maintained on an accrual basis. All annual appropriations lapse at fiscal year end.

**SOUTH VALLEY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)**

NOTE 1 SUMMARY OF ACCOUNTING POLICIES (Continued)

Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Excess cash as determined by management is invested in the Utah Public Treasurer's Investment Pool. All non-restricted amounts are considered to be cash and cash equivalents for cash flow statement purposes.

Allowance for Doubtful Accounts

The District has not set up an allowance for doubtful accounts for receivable of sewer service fees. Unpaid fees are certified to the County and attached as liens on the related real estate.

Retainage

The District requires developers to post a bond of 110% of the cost of the project. After the District accepts the completed project, the District releases all of the bonds except 10%. The remaining 10% of the posted bond is not released until the warranty period required by the District is met. The District records the total cost of each completed project after it has been satisfactorily completed and accepted. Warranty work done during the warranty period will be performed by the developer or collected from the bond posted by the developer.

Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 CASH AND INVESTMENTS

The District's deposit and investment policy is to follow the Utah Money Management Act. However, the District does not have a separate deposit or investment policy that addresses specific types of deposit and investment risks to which the District is exposed.

The following is a summary of the District's cash and investments as of December 31, 2006:

	<u>Carrying Amount</u>
Utah Public Treasurer's Investment Pool	\$ 70,127,901
Petty cash and checks held for collection	200
Cash in bank	<u>1,059,065</u>
Total Cash and Investments	<u>\$ 71,187,166</u>

SOUTH VALLEY SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 CASH AND INVESTMENTS (Continued)

As reported on the Statement of Net Assets:

Cash and cash equivalents	\$ 10,687,934
Restricted cash:	
Construction fund - 2005 Series revenue bonds	9,513,801
Impact fees - Collections	23,292,237
Impact fees - Treatment	25,899,659
Contractors cash bonds	1,793,535
	<u>60,499,232</u>
Total Cash and Investments	<u>\$ 71,187,166</u>

The District follows the requirements of the Utah Money Management Act (Utah Code Annotated 1953, Section 51, Chapter 7) in handling its depository and investment transactions. This law requires the depositing of District funds in a "qualified depository". The Act defines a "qualified depository" as any financial institution whose deposits are insured by an agency of the Federal government and which has been certified by the state commissioner of financial institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

The Money Management Act also governs the scope of securities allowed as appropriate investments for the District and conditions for making investment transactions. Investment transactions are to be conducted through qualified depositories or primary reporting dealers.

The District's cash and cash equivalents and investments are exposed to certain risks as outlined below:

Custodial credit risk – deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of December 31, 2006, the carrying amount of the District's deposits were \$1,059,065 and the bank balance was \$874,461. Of the bank balance, \$100,000 was covered by federal depository insurance. The remaining \$774,461 balance of deposits was exposed to custodial risk because it was uninsured and uncollateralized. Deposits are not collateralized nor are they required to be by state statute. However, the State Commissioner of Financial Institutions monitors financial institutions and establishes limits for the deposits of public money at individual financial institutions, and the District follows these recommendations.

Custodial credit risk – investments is the risk that in the event of the failure of a counterparty, the District will not be able to recover the value of its investments that are in the possession of an outside party. The District's investment in the Utah Public Treasurer's Investment Fund (PTIF) has no custodial credit risk.

Interest rate risk is the risk that changes in the interest rates will adversely affect the fair value of an investment. The District manages its exposure by investing only in the Utah Public Treasurer's Investment Fund. The fair value of the District's investment in the PTIF is \$70,128,392 with a carrying value of \$70,127,901.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District only invests in the Utah Public Treasurer's Investment Fund. As of December 31, 2006, the Utah Public Treasurer's Investment Fund was unrated.

**SOUTH VALLEY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)**

NOTE 2 CASH AND INVESTMENTS (Continued)

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District's investment in the Utah Public Treasurer's Investment Fund has no concentration of credit risk.

The District invests in the Utah Public Treasurer's Investment Pool (PTIF), which is a voluntary external Local Governmental Investment Pool managed by the Utah State Treasurer's Office and is audited by the Utah State Auditor. No separate report as an external investment pool has been issued for the PTIF. The PTIF is not registered with the SEC as an investment company, and is not rated. The PTIF is authorized and regulated by the Utah Money Management Act, (Utah Code Title 51, Chapter 7). The PTIF invests in high-grade securities which are delivered to the custody of the Utah State Treasurer, assuring a perfected interest in the securities, and therefore, there is very little credit risk except in the most unusual and unforeseen circumstances. The maximum weighted average life of the portfolio does not exceed 90 days.

Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments. The PTIF operates and reports to participants on an amortized costs basis. The income, gains, losses, net of administration fees, of the PTIF are allocated to participants on the ratio of the participants' share to the total funds in the PTIF based on the participants' average daily balance. The PTIF allocates income and issues statements on a monthly basis. Twice a year, at June 30 and December 31, which are the accounting periods for public entities, the investments are valued at fair value and participants are informed of the fair value valuation factor. Additional information is available from the Utah State Treasurer's Office.

NOTE 3 CERTIFIED LIENS ON PROPERTY

Certified liens as of December 31, 2006 in the amount of \$76,360 represents the total amount of past due accounts receivable for service fees, unpaid connection fees and penalties which have been certified to the Salt Lake County Treasurer's office for attachment to the related real estate property as liens. No reserve for uncollectible accounts has been established, as the property cannot be sold or transferred without first clearing those liens from the records.

**SOUTH VALLEY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)**

NOTE 4 CAPITAL ASSETS

The following summarizes the District's capital assets for the year ended December 31, 2006:

	Balance 12/31/05	Additions	Deletions	Balance 12/31/06
Capital Assets not being depreciated				
Land and easements	\$ 7,241,648	\$ 333,462	\$ -	\$ 7,575,110
Construction in progress	2,703,623	2,009,293	(2,439,560)	2,273,356
Total Capital Assets not being depreciated	9,945,271	2,342,755	(2,439,560)	9,848,466
Other Capital Assets				
Collection system	173,623,581	18,311,977	-	191,935,558
Buildings	1,398,774	-	-	1,398,774
Office furniture and equipment	466,559	58,021	(39,702)	484,878
Operating equipment	2,783,111	336,603	-	3,119,714
Total Other Capital Assets at historical cost	178,272,025	18,706,601	(39,702)	196,938,924
Less Accumulated Depreciation				
Collection system	(40,687,200)	(4,536,962)	-	(45,224,162)
Buildings	(883,340)	(44,164)	-	(927,504)
Office furniture and equipment	(351,020)	(41,465)	30,753	(361,732)
Operating equipment	(1,825,578)	(239,890)	-	(2,065,468)
Total Accumulated Depreciation	(43,747,138)	(4,862,481)	30,753	(48,578,866)
Other Capital Assets, Net	134,524,887	13,844,120	(8,949)	148,360,058
Property and Equipment, Net	<u>\$ 144,470,158</u>	<u>\$ 16,186,875</u>	<u>\$ (2,448,509)</u>	<u>\$ 158,208,524</u>

Depreciation expense of \$4,862,481 was charged to operating expense for the year ended December 31, 2006.

NOTE 5 INVESTMENT IN SOUTH VALLEY WATER RECLAMATION FACILITY

During 1978, the District entered into a joint venture with two other special districts and two other cities to form the South Valley Water Reclamation Facility (SVWRF). The joint venture was organized to construct and operate a regional sewage treatment facility for the benefit of the five members. In August 2003, SVWRF became a legal entity, as a special district under State Law, rather than a joint administrative entity.

The five members and their related ownership interests are listed below and are based on the members' ownership of SVWRF's current million gallons per day (MGD) capacity, and not the ownership of future capacity that is currently under construction.

**SOUTH VALLEY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)**

NOTE 5 INVESTMENT IN SOUTH VALLEY WATER RECLAMATION FACILITY (Continued)

	<u>Percent</u>	<u>MGD</u>
South Valley Sewer District	34.72%	13.20
West Jordan City Corporation	28.22%	10.72
Sandy Suburban Improvement District	20.17%	7.66
Midvalley Improvement District	10.11%	3.84
Midvale City Corporation	6.78%	2.58
	<u>100.00%</u>	<u>38.0</u>

The joint venture is administered by a board of trustees with representative from the five entities. Each member appoints one member to the board, and voting power is not related to ownership. Therefore, each member is equal to another for voting privileges. The joint venture is responsible for adopting a budget and financing its operations, subject to the approval by each of the five members. Each member is billed its share of operating costs based on the member's metered usage. The District paid operating costs of \$3,531,442 and capital contributions of \$4,088,119 to the joint venture for the year ended December 31, 2006. As of December 31, 2006, the District had payables of \$1,480,655 to the joint venture.

The following are condensed summaries of the joint venture's audited balance sheet and statement of operations as of December 31, 2006 and for the year then ended. The amounts at December 31, 2006 were provided from separate audited financial statements, which are available at the office of South Valley Water Reclamation Facility, 7495 South 1300 West, West Jordan, Utah 84084.

Assets

Current Assets	\$ 25,326,415
Property and Equipment (net)	59,124,624
Total Assets	\$ 84,451,039

Liabilities and Net Assets

Current Liabilities	\$ 4,083,253
Long-term Liabilities	20,578,121
Net Assets	59,789,665
Total Liabilities and Net Assets	\$ 84,451,039

Operating Revenues	\$ 7,905,836
Operating Expenses	(8,090,503)
Income From Operations	(184,667)
Depreciation Expense	(3,540,985)
Nonoperating Revenues (Expenses)	184,667
Net Loss	\$ (3,540,985)

**SOUTH VALLEY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)**

NOTE 5 INVESTMENT IN SOUTH VALLEY WATER RECLAMATION FACILITY (Continued)

The amount of the investment in SVWRF is carried at an amount that is higher than the District's ownership percentage of the underling equity in net assets as shown in SVWRF's December 31, 2006 audit report. This difference is due to SVWRF basing the members' ownership on current MGD, and not the ownership of future capacity that is currently under construction. SVWRF is currently constructing additional capacity, called Phase IV, to add an additional 12 MGD, for a total of 50 MGD, of which the District is purchasing 25%. When SVWRF has completed Phase IV, the District will have an ownership interest in SVWRF of 32% and capacity of 16.2 MGD.

NOTE 6 INTANGIBLE ASSET

On March 14, 2001, the District purchased 1.9 MGD of wastewater treatment capacity in the wastewater treatment plant for \$3,040,000. The purchase price paid by the District was higher, by \$932,566, than the estimated value of the 1.9 MGD calculated on the equity basis of accounting. The difference between the purchase price paid and the estimated fair value represents goodwill and was recorded as an intangible asset. The District has adopted the provisions of Financial Accounting Standards Board No. 142, *Goodwill and Other Intangibles* (FASB 142). The goodwill amount is a non-amortizable intangible asset and in accordance with FASB 142 has not been amortized. The District annually assesses whether an impairment of the goodwill amount has occurred. Impairment would occur when the carrying amount of the goodwill amount is estimated to be greater than fair value.

NOTE 7 DEFEASED DEBT

The District defeased the entire balance of the 1973 Series A General Obligation Bonds. The 1973 Series A were defeased by placing a portion of the proceeds from the Series 1986 Improvement and Refunding Bonds in an irrevocable trust to provide for all future debt service payments on defeased bonds. The principal amounts outstanding as of December 31, 2006 for the 1973 Series A General Obligation Bonds is \$385,000.

The District partially defeased the 2000 Revenue Bonds in the amount of \$4,150,000. The portions of the bonds were defeased by placing a portion of the proceeds from the 2003 Sewer Improvement Revenue Bonds in an irrevocable trust to provide for the future debt service payments on the defeased bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. The principal amounts outstanding as of December 31, 2006 for the 2000 Revenue Bonds is \$4,150,000.

SOUTH VALLEY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 8 LONG-TERM DEBT

The following is a summary of the changes in long-term debt obligations for the year ended December 31, 2006:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds					
2001 General obligation bond	\$ 860,000	\$ -	\$ (210,000)	\$ 650,000	\$ 220,000
Total general obligation bonds	860,000	-	(210,000)	650,000	220,000
Revenue Bonds					
2000 Revenue bond	2,620,000	-	(605,000)	2,015,000	-
2001 Revenue bond	4,765,000	-	(1,530,000)	3,235,000	-
2003 Revenue bond	2,360,000	-	(150,000)	2,210,000	-
2005 Revenue bond	11,990,000	-	-	11,990,000	-
Plus unamortized premium	789,080	-	(102,198)	686,882	-
Total Revenue Bonds	22,524,080	-	(2,387,198)	20,136,882	-
Total Long-Term Debt	\$ 23,384,080	\$ -	\$ (2,597,198)	\$ 20,786,882	\$ 220,000

The District has a General Obligation Bond. The General Obligation Bond is a direct obligation of the District. Interest on this bond is payable semiannually at 4.4%. The following summarizes the District's General Obligation Bond debt service requirements as of December 31, 2006.

Year ending December 31,	Principal	Interest	Total
2007	\$ 220,000	\$ 14,300	\$ 234,300
2008	220,000	18,920	238,920
2009	210,000	9,240	219,240
Total	\$ 650,000	\$ 42,460	\$ 692,460

The District has issued Revenue Bonds. The revenues of the District are pledged to pay the debt service on the revenue bonds. Interest on these bonds is payable in semiannually at varying interest rates ranging from 2.50% to 5.75%. The following summarizes the District's revenue bonds debt service requirements as of December 31, 2006.

Year ending December 31,	Principal	Interest	Total
2007	\$ -	\$ 445,980	\$ 445,980
2008	2,375,000	839,523	3,214,523
2009	2,480,000	731,796	3,211,796
2010	2,605,000	622,988	3,227,988
2011	950,000	546,906	1,496,906
2012-2016	5,515,000	1,998,595	7,513,595
2017-2020	5,525,000	565,547	6,090,547
	19,450,000	\$ 5,751,335	\$ 25,201,335
Plus unamortized premium	686,882		
Total	\$ 20,136,882		

SOUTH VALLEY SEWER DISTRICT NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 9 PENSION PLAN

Plan Description

The South Valley Sewer District contributes to the Local Governmental Contributory Retirement System, Local Governmental Noncontributory Retirement System employer defined benefit pension plans administered by the Utah Retirement Systems (Systems) all of which are cost sharing multiple-employer defined benefit pension plans administered by the Utah Retirement System. The Systems provide retirement benefits, annual cost of living allowance and death benefits and refunds to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended, which also establishes the Utah State Retirement Office (Office) for administration of the Utah Retirement Systems and plans. Chapter 49 places the Systems, the Office and related plans and programs under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the systems and plans. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, Utah 84102 or by calling 1-800-365-8772.

The District is legally obligated to contribute to the retirement systems as long as they have employees meeting membership requirements. All required contributions were paid within the applicable periods.

Funding Policy

Plan members in the Contributory System are required to contribute 6% of their annual covered salary (of which 4.01% was paid by the District for the employee) and the District is required to contribute 7.08% of their annual covered salary for the period beginning January 2006 through June 2006, and 7.58% of their annual covered salary for the period beginning July 2006 through December 2006.

In the Noncontributory System, the District is required to contribute 11.09% of their annual covered salary for the period beginning January 2006 through June 2006, and 11.59% for the period beginning July 2006 through December 2006. The contribution rates are the actuarially determined rates and are approved by the Board as authorized by Chapter 49.

The District's contributions to the Contributory system for the years ending December 31, 2006, 2005 and 2004 were \$5,271, \$5,017 and \$4,599 respectively; and for the Noncontributory Retirement System the contributions for December 31, 2006, 2005, and 2003 were \$130,393, \$119,867 and \$105,882 respectively. The contributions were equal to the required contributions for each year.

The District participates in a 401K plan offered through the Utah State Retirement System. The District's contributions for years ended December 2006, 2005, and 2004 were \$181,082, \$130,400 and \$83,106, respectively. The employees' contributions for the years ended December 31, 2006, 2005, and 2004 were \$14,832, \$23,780 and \$18,922, respectively.

NOTE 10 DEFERRED COMPENSATION PLANS

The District also participates in a deferred compensation plan created in accordance with Internal Revenue Code 457. The plan, available to all District employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. District contributions for the years ended December 31, 2006, 2005, and 2004 were \$0, \$16,508, and \$30,659, respectively. The employees' contributions for the year ended December 31, 2006, 2005, and 2004 were \$3,500, \$3,160, and \$4,040 respectively.

SOUTH VALLEY SEWER DISTRICT NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 11 FUTURE CONSTRUCTION

Pursuant to the adopted Capital Facilities Plan, the District has planned some major extensions and improvements to its collection system as well as continued expansion of the South Valley Water Reclamation Facility during the next three years (2007 through 2009). Remaining planned expenditures for these purposes are projected at \$48,591,661. The District's portion of these planned expenditures is \$15,512,690. Amounts expended through 2006 total \$4,478,310. The District has reserved \$25,899,659 of net assets for future expansion construction or new construction from impact fees collected previously.

NOTE 12 SEWER REIMBURSEMENT AGREEMENTS

The District has entered into several sewer reimbursement agreements with developers. The developer installs sewer improvements on land located within the area served by the District through and/or adjacent to land not owned by the developer in order to obtain sewer service for the land being developed. The District has agreed to reimburse the developer up to the amount of the actual costs of sewer improvements installed between the property of the developer and the properties owned by third parties. The developers will be reimbursed a portion of the connection fees collected in the future as outlined in the reimbursement agreements. The reimbursement agreements terminate ten years after the date the sewer improvement have been assigned and conveyed to the District.

The actual construction and design costs eligible for reimbursement must be submitted by the developer within sixty (60) days after such improvements have been assigned and conveyed to the District. The actual costs eligible for reimbursement are to be verified and determined by the District's engineer. The District will not pay interest on any of the reimbursement agreements.

The sewer reimbursement agreements were signed on different dates between December 1, 1993 and December 31, 2006. The District estimated the construction to be \$32 per lineal foot when actual costs were not available. The District estimates that the potential future reimbursements to developers to be \$1,049,575 as of December 31, 2006. This amount will not be paid until collected and after receiving a written request from the developer. Future revenues could be reduced by the above amount of connections fees collected in the areas covered by these agreements.

NOTE 13 RISK MANAGEMENT

The District is exposed to various risks of loss to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the District has commercial insurance. The District also carries commercial workers' compensation insurance. There were no significant reductions in coverage from the prior year, and settlement claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

NOTE 14 COMMITMENTS AND CONTINGENCIES

The District is in the process of constructing a new sewage treatment plant located in Riverton, Utah. Land for this new plant has been purchased, and further approvals are being sought at this time. It is anticipated that the Riverton Treatment Facility design will take three years to design and construct. The Riverton Treatment Facility is estimated to cost approximately \$120 million. Of this amount approximately \$30 million will be funded from net assets reserved for treatment, it is anticipated that the remaining portion will be funded through the issuance of new bonds.

SUPPLEMENTAL INFORMATION

SOUTH VALLEY SEWER DISTRICT IMPACT FEE SCHEDULE FEES COLLECTED THROUGH DECEMBER 31, 2006

Source of Funds	1997 Revenue	1998 Revenue	1999 Revenue	2000 Revenue	2001 Revenue	2002 Revenue	2003 Revenue	2004 Revenue	2005 Revenue	2006 Revenue	Total
Residential - SVR 1	\$ 2,075,547	\$ 3,544,761	\$ 4,595,256	\$ 4,088,344	\$ 6,097,911	\$ 5,517,375	\$ 7,829,401	\$ 8,095,881	\$ 8,658,177	\$ 6,818,330	\$ 58,320,884
Commercial	1,178,239	628,105	615,397	1,488,165	823,447	798,865	859,667	1,288,429	2,139,941	2,095,578	11,874,833
Residential - SVR 2								588,127	874,150	1,260,498	2,723,775
Residential - SVR 3								134,090	293,248	460,096	887,434
Total Source of Funds	3,253,786	4,172,866	5,210,653	5,574,509	6,921,059	7,276,240	8,689,068	10,108,527	11,965,516	10,634,502	73,806,727
Interest Earned	50,160	186,004	442,579	936,274	806,804	560,212	474,117	546,180	1,215,171	2,163,884	7,391,166
Net Total Source	\$ 3,303,946	\$ 4,368,870	\$ 5,653,232	\$ 6,510,784	\$ 7,727,863	\$ 7,836,452	\$ 9,163,185	\$ 10,654,687	\$ 13,180,687	\$ 12,798,386	\$ 81,197,892
Use of Funds	Expense	Expense	Expense	Expense	Expense	Expense	Expense	Expense	Expense	Expense	
Misc Sewer Proj SID 587 '01	713,042										713,042
Lovers Lane SID 598 '01	215,170										215,170
South Blvd/Circo/5800 W SID 600 '01	844,411										844,411
11800 S 1700-2700 W SID 612 '01	1,109,326										1,109,326
Turner Estates SID 588 '01	526,981										526,981
SID 635 11800 S Relay '02		1,267,004	1,185,975								1,185,975
SID 628 Riverpark Drive '02											1,267,004
SID 801 Riverpark Drive '02			653,522								653,522
SWWRF Expansion '02		2,948,808									2,948,808
1997/98 Adjustment-Overspent	(104,984)										
12600 S I-15 to 1300 W (813)											
SWWRF Expansion '03			1,477,553								1,477,553
Rose Creek 6400 W-14200 S (641)			878,807								878,807
Herriman Phase 4 (815)			1,036,258								1,036,258
12582 S 2450 W-2800 W			158,970								158,970
Utah Canal 14020 S to 14150 S			83,027								83,027
2003/04 Adjustment		48,074	(48,074)								
UDOT 12600 S 1300 W to Bangalter			175,480								
11800 S -11400 S 1300 W (550)				5,100,622							5,100,622
SWWRF Expansion '04				1,020,120							1,020,120
Property Purchase 13100 S 700 W				396,041	647,136						647,136
10290-10400 S 1000 W (819)					2,585,000						2,585,000
7300 W 13700 S - 13800 S (831)					566,592						566,592
Mindeman S of 14800 S (832)					555,874						555,874
9800-10200 S at Bangalter (833)					393,859						393,859
Cannon Ridge Extension (834)					1,145,139						1,145,139
Property Purchase - Riverton					1,673,272						1,673,272
7530 W Proj Herriman (842)						2,476,139					2,476,139
1300 E to 13400 S (846)						251,419					251,419
1000 W Riverfront Pkwy (849)						308,917					308,917
4000 W 11400 S-11720 S (836)						166,434					166,434
TSSD Transfer						365,632					365,632
Total Use of Funds	\$ 3,303,946	\$ 4,368,870	\$ 5,653,232	\$ 6,510,784	\$ 7,727,863	\$ 7,836,452	\$ 9,163,185	\$ 10,520,767	\$ 12,893,007	\$ 12,347,028	\$ 49,191,896
Remaining Funds Available											
General Impact Fees											\$ 23,292,237
SWWRF Impact Fees											\$ 25,899,659

SOUTH VALLEY SEWER DISTRICT

MANAGEMENT REPORTS

DECEMBER 31, 2006

**SOUTH VALLEY SEWER DISTRICT
MANAGEMENT REPORTS
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**REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**



Jensen & Keddington, P.C.

Certified Public Accountants

Jeffrey B. Jensen, CPA
Gary K. Keddington, CPA
Brent E. Christensen, CPA
Jeffrey B. Hill, CPA

Board of Trustees
South Valley Sewer District
Draper, Utah

We have audited the financial statements of South Valley Sewer District, as of and for the year ended December 31, 2006, and have issued our report thereon dated May 8, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered South Valley Sewer District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of South Valley Sewer District's control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of South Valley Sewer District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects South Valley Sewer District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of South Valley Sewer District's financial statements that is more than inconsequential will not be prevented or detected by South Valley Sewer District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by South Valley Sewer District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance

As part of obtaining reasonable assurance about whether South Valley Sewer District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the Board of Trustees and is not intended to be and should not be used by anyone other than these specified parties.

Tensen & Kedingto

May 8, 2007



**INDEPENDENT AUDITOR'S REPORT
ON STATE OF UTAH
LEGAL COMPLIANCE**

Jensen & Keddington, P.C.

Certified Public Accountants

Jeffrey B. Jensen, CPA
Gary K. Keddington, CPA
Brent E. Christensen, CPA
Jeffrey B. Hill, CPA

Board of Trustees
South Valley Sewer District
Draper, Utah

We have audited the financial statements of South Valley Sewer District, for the year ended December 31, 2006 and have issued our report thereon dated May 8, 2007. Our audit also included testwork on the District's compliance with those general compliance requirements identified in the *State of Utah Legal Compliance Audit Guide*, including:

- Public Debt
- Cash Management
- Purchasing Requirements
- Budgetary Compliance
- Truth in Taxation and Property Tax Limitations
- Special District
- Other General Compliance Issues
- Impact Fees and Other Development Fees

The District did not receive any major or nonmajor grants during the year ended December 31, 2006.

The management of South Valley Sewer District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, South Valley Sewer District complied, in all material respects, with the general compliance requirements identified above for the year ended December 31, 2006.

Jensen & Keddington

May 8, 2007